

**THE DANGER OF POPULISM.
MACROECONOMIC POPULISM
IN LATIN AMERICA, IS COLOMBIA
THE EXCEPTION?***

Rosalvina Otálora Cortés**

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Abstract

In recent decades, populism has regained prominence in Latin America. It is expressed in forms of government from left or right as it happens in Venezuela with Hugo Chávez and Alvaro Uribe in Colombia, as well as in mobilization of some sectors of the population.

This ambiguous concept takes on different meanings. From the economic point of view, macroeconomic populism emphasizes growth through redistributive policies in the short term to increase consumption, neglecting macroeconomic balance, especially with regard to inflation and fiscal deficit.

This paper argues that macroeconomic populism is not new and has been applied in Latin America repeatedly. With some differences and at different times of economic history, the governments of Argentina, Chile, Peru and Venezuela, have resorted to the use of fiscal,

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** The author is Magíster in Political Studies of the Universidad Nacional of Colombia. She is Economist and Lawyer. Actually, she is the Director of Economy and Conflict and Researcher of the Universidad Libre. rosi.siberiano@gmail.com

monetary and credit expansive policies and overvaluation of the currency to accelerate growth and redistribute income. When applied there are concerns about fiscal and exchange restrictions.

The result is an uncontrollable inflation and an economic crisis, which may explain the instability and hyperinflation that Latin America has experienced. Colombia, curiously, throughout its history, is an exception to this rule, due to the independence of the institutions that manage monetary policy and the barriers that implies for the executive.

Key words

Populism, populist macroeconomic, fiscal policy, monetary policy, economic policy, hyperinflation, classic hyperinflation, inflation, macroeconomic populism phases, stability, Latin America, Argentina, Chile, Peru, Venezuela, Colombia.

**EL PELIGRO DEL POPULISMO.
POPULISMO MACROECONÓMICO
EN AMÉRICA LATINA ¿COLOMBIA
ES LA EXCEPCIÓN?**

Resumen

En las últimas décadas, el populismo ha recuperado prominencia en América Latina. Se expresa en formas de gobierno de izquierda o derecha como sucede en Venezuela con Hugo Chávez y Álvaro Uribe en Colombia, así como en la movilización de algunos sectores de la población.

Este concepto ambiguo toma sobre diferentes significados. Desde el punto de vista económico, el populismo macroeconómico destaca el crecimiento mediante políticas de redistribución a corto plazo para aumentar el consumo, descuidando equilibrio macroeconómico, especialmente con respecto a la inflación y déficit fiscal.

Este artículo sostiene que el populismo macroeconómico no es nuevo y se ha aplicado en América Latina en varias ocasiones. Con algunas diferencias y en distintos momentos de la historia económica, los gobiernos de Argentina, Chile, Perú y Venezuela, han recurrido a la utilización de políticas fiscales, monetarias y crediticias expansivas y la sobrevaloración de la moneda para acelerar el crecimiento y redistribuir el ingreso.

El resultado es una incontrolable inflación y una crisis económica, que pueden explicar la inestabilidad y la hiperinflación que América Latina ha experimentado. Colombia, curiosamente, en toda su historia, es una excepción a esta regla, debido a la independencia de las instituciones que conducen la política monetaria y las barreras que implica para el ejecutivo.

Palabras clave

Populismo, populismo macroeconómico, política fiscal, política monetaria, política económica, hiperinflación, hiperinflación clásica, inflación, fases del populismo macroeconómico, estabilidad, América Latina, Argentina, Chile, Perú, Venezuela, Colombia.

INTRODUCTION

During the last decade populism has once again come to the center of the political scene in Latin America. It is expressed in two different ways. The first, is the traditional style expressed by the government, as in Venezuela with president Hugo Chávez. The second way has origin in mobilization of the population where might be a “latent populism” which could become evident when this population reach power. Two examples of this type of populism are the cases of “Piqueteros” in Argentina and “Cocaleros” in Bolivia¹.

¹ PINTO OCAMPO, Maria Teresa. Between Repression and Conciliation: the Growers in Chapare and Putumayo. Final Report of the Contest: Social

When we talk about populism we are faced with a very “ambiguous concept” which can be wide and inclusive². It depends on what we want to emphasize. Then, from the point of view of the economy of a country- which is the subject of this article- populism males emphasis on the growth by short term public policies of redistribution in order to growth the consumption. These impact the macroeconomics equilibrium, especially inflation and fiscal deficit. In this case we talk about macroeconomic populism³.

There are some cases where the classic populism regime can apply economic decisions which benefit some people. There is a kind of “distributive microeconomic” which can be compatible with a “stable macroeconomic”. It could be the case of Menem in Argentina or Fujimori in Perú⁴. But macroeconomic populism is not a new situation; it has been applied in Latin America in different periods⁵. Macroeconomic populism uses fiscal, monetary and credit expansive policies and strong valuation of the currency in order to accelerate the growth of the economic and redistribute the income. These policies applied without fiscal and monetary restrictions and the result is high inflation and economic crises as has occurred in the next cases we are going to analyze in this article (Argentina, Chile and Peru). These cases prove that the populism is the cause of

Movements and New Conflicts in Latin America and the Caribbean. Regional Scholarship Program CLACSO. 2004. Available at: <http://bibliotecavirtual.clacso.org.ar/ar/libros/becas/2002/mov/pinto.pdf>

² Ibidem.

³ DOORNBUSH, Rudiger. *The Macroeconomics of Populism*. Fondo de Cultura Económica. Mexico City. 1997.

⁴ DEGREGORI, Carlos Iván. *The Decade of Anti-politics: the Rise and Flight of Alberto Fujimori and Vladimiro Montesinos / Carlos Ivan Degregori*. Instituto de Estudios Peruanos. Lima. 2001.

⁵ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Grupo Editorial Norma. Bogotá. 2009. p. 33 y ss).

the hyperinflation rule and it can be seen as a cause of the hyperinflation and the macroeconomic instability in Latin America⁶. Colombia, curiously some years ago was the exception to this rule.

1. THE RESEARCH PROBLEM

The term populism was originally used in the United States in the mid-1890s, referring to the People's Party, but since almost no movement or leader has acknowledged being "populist." In current political language, the term has a negative connotation, being closely associated with terms like "demagogia", economic bounty, which indicate economic or political irresponsibility⁷.

Populism is a controversial concept, and agreements about what it means and who qualifies as a populist is difficult because politicians don't want to identify with this analytical category⁸. With the economic crisis of the late twentieth century, characterized by external shocks, among which are included the effects of the Asian crisis and the Swiss bankruptcy⁹, the dynamism that characterized the economies of Latin America in the early years of the nineties (except for Mexico, Argentina and Uruguay in 1995) led to a stalemate. This period was called the "five years lost" by ECLAC.

Therefore, it rediscovered the importance of institutions as an essential framework for the proper functioning of markets¹⁰. Above, it said to be the reason for the failure of the Washington consensus led to discussion on the idea of a shift to the left in Latin America.

⁶ Ibid.

⁷ PANIZZA, Francisco. (Comp.). *Populism as a Mirror of Democracy*. Fondo de Cultura Económica de Argentina. Buenos Aires. 2009. p. 9.

⁸ Ibidem.

⁹ Paramio, Ludolf. "Left turn and the return of populism". In: *Revista Nueva Sociedad*. No. 205. p. 65

¹⁰ Ibid. p. 66.

However, there was a divergence between political discourse, the position on globalization and the interpretation of democratic reforms and the role of institutions¹¹. The only coincidence is the emphasis on social policy and the pursuit of a focused economic model, not only in growth, but social outcomes, which has slowly degenerated into populism.

2. METHODOLOGY

For this article, there will be a comparative exercise of economic policy management, fiscal and monetary policy by the various governments in Latin America in order to identify the use of economic tools for populist purposes. The selection of countries is done arbitrarily and corresponds to the accessibility of information on economic variables on the behavior of fiscal and monetary policy. Similarly, we use simple graphic variables such as inflation, unemployment, gross domestic product, credit, etc, when available and at different times depending on the country for analysis.

The idea is to study at the end the Colombian case and draw lessons that allow us to explain, first, the dangers of macroeconomic populism; second, the relative economic stability experienced by Colombia in recent decades, in relation to neighboring countries.

3. THEORETICAL APPROXIMATION TO MACROECONOMIC POPULISM

3.1 Traditional European Hyperinflation and Populism Hyperinflations in Latin America

3.1.1 Traditional European Hyperinflation

The European economies had a hyperinflation process during the twenties in different countries (Austria, Germany, Hungary, Poland and

¹¹ Ibidem

Russia). The causes and consequences of this phenomenon receive the name of “traditional hyperinflation”¹². The same phenomenon occurred in Latin America during the eighties in countries such as Bolivia, Argentina, Brazil and Peru; but exempting Bolivia in these countries the causes had a different nature to traditional hyperinflation¹³.

After the experience of the European countries, economists discussed different theories about the characteristics and effects of traditional hyperinflation and the effective policies which were applied but resulted in being very expensive for the society. Some years later some Latin – America countries were in the same situation as Europe had been, but the same policies did not function because they were applied in a very different context¹⁴.

The origin of traditional European hyperinflation obeyed to external factors. After the First World War, the European economies presented high budgets deficits which were financed by means of the creation of currency. In order to stop the hyperinflation, there was realized an orthodox program or global plan of stabilization, which generated credibility with the public and certainty that the Central Bank would not finance the budget deficit by issuing currency.

The European countries that faced hyperinflation, the incomes only covered a small fraction of the total expenses of the country and the collapse in the public incomes coincided with the increase of inflation (Olivera Tanzi Effect)¹⁵. In addition, the hyperinflation phenomenon was preceded by an excessive

level inflation tax (seignior age)]. Undoubtedly, the key components of the integral programs of orthodox policies were:

- The policies of stabilization that were adopted.
- The exchange rate which restored the convertibility of the domestic currency in terms of *the* dollar or *of the* gold and the reduction of the budget deficit.

The credibility of the Central Bank is in the public eye when it promised to reject the demands of the internal unsecured credits and not to grant any more internal credit to the government¹⁶.

3.1.2 Classical Populism as a Cause of Hyperinflation and Macroeconomic Instability in Latin America

Hyperinflation in Latin America, with the exception of the Bolivian hyperinflation, -which presented traditional characteristics-, occurred in a very particular context. The characteristics of the economies of countries like Peru, Brazil and Argentina were economies following a tradition of high inflation as a result of macroeconomic populism¹⁷. The application of populism policies creates high budget deficits due to increase in public spending (by the expansion of government and state enterprises), as discussed below. It has been demonstrated that Latin America generally uses these policies: expansionary fiscal and expansionary credit policies and overvaluation of the currency, in order to accelerate growth and redistribute income (macroeconomic populism). When the government applies them, there is concern about fiscal and exchange restrictions. After a while, decreasing real wages

¹² DOORNBUSH, Rudiger. *The Macroeconomics of Populism*. Ob. Cit.

¹³ Ibid.

¹⁴ KRUGMAN, Paul. *Economía Política internacional*. Mac Graw Hill. 1997.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

Chart 1. Phases of Populism

Phase I	Phase II	Phase III	Phase IV
Gross domestic product increased	Bottlenecks by:	Causes:	Government starts stabilization
Real wage growth	• Strong demand growth	• Capital flight	IMF Aid and BM declining real wages
Employment growth	• Little foreign exchange (To pay for imports)	• Demonetization economic (barter)	Control of inflation rate
Inflation rate controlled	• Inflation Increases	• Fiscal deficit increase	Break companies
Import relieves the scarcity	• Wages unchanged	• Subsidies decrease	The capital flight following the violent overthrow of the government
	• Increased subsidies	• Inflation increase	
	• Increased deficit	• Real wages fall drastically	

and an imbalance in the balance of payments, lead to hyperinflation¹⁸.

Moreover, in each country the new anti-inflationary programs coincided with the end of a government and the beginning of another. For this reason it is a new opportunity for macroeconomic populism to promise at the same time to reduce unemployment and to control inflation. As we know – "Phillips's Curve" teaches that it is not possible to achieve both aims in the short term¹⁹.

This is an example of application of the Theory of the "Economic - Political Cycle" which shows how the government does everything necessary to grow and to increase employment and the production of the country in the short term by means of increasing public spending, the external debt and the fiscal deficit²⁰. These policies cause hyperinflations which could be handling by orthodox or heterodox policies which it will apply, on having finished its electoral period, or will remained a problem

to resolve for the following government. This is an example of the macroeconomic populism as an important cause the big hyperinflations and of the macroeconomic instability in Latin America.

3.1.3 Phases of Macroeconomic Populism

Rudiger Dornbusch says a populism policy progresses through these phases: (Chart N. 1)²¹

Then we are going to study each of the proposed cases.

4. RESULTS

4.1 Cases of Macroeconomic Populism In Latin America Chart 2. Cases of Macroeconomic Populism in Latin America²²

4.1.1 Argentina

In the early twentieth century, Argentina was considered one of the world's most developed

¹⁸ DOORNBUSH, Rudiger. *The Macroeconomics of Populism*. Ob. Cit.

¹⁹ MANKIW, N. Gregory. *Principles of Economy*. Second edition. Mac Graw Hill. Translation by Esther Rabasco Espartiz and Luis Toharía Cortés. Madrid. 2003. p. 474 .

²⁰ *Ibid.* p. 493.

²¹ Source: DOORNBUSH, Rudiger. *The Macroeconomics of Populism*. Ob. Cit.

²² Source: MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View*. The University of Texas at Austin. Institute of Latin American Studies. Center for Latin American Social Policy (CLASPO). Researcher Visiting. Perú. February, 2004. p. 12.

***This chart has been completed by the author of this article**

Model	Country	Argentina	Chile	Perú	Venezuela
Liberal Primary Exporter		19 th – 1929	19 th – 1929	19 th – 1962	19 th – 1958
		Constitutional governments	Constitutional governments	Militar governments	Autoritarian Governments
Industrialization for Substitution of Imports ISI		1930-1990	1930-1970	1963-1985	1958-1974
		José Félix Uriburu (1932)	Arturo Alessandri (1932)	Fernando Belaunde Gral. Juan Velasco Gral. Francisco Morales	Rómulo Betancourt Raúl Leoni Luis Herrera Campins
Macroeconomic Populism		Perón (1946-1955) Perón II (1973-1976)	Eduardo Frei Montalva (1964-1970)	Belaunde II Alan García (1985-90)	Jaime Lusinchi (1984-1989)
		Military government (until 1983) Raúl Alfonsín (Austral Plan)	Salvador Allende (1970-73)		Hugo Chávez Frías (1999-present)
Orthodoxy and Market economy		1991-2010	1973-2004	1990-2004	1974-1979
		Carlos Menem	Pinochet	Fujimori	Carlos Andrés Pérez
		Fernando de la Rúa	Patricio Aylwin	Valentín (interine)	1994-1999
		Eduardo Duhalde	Eduardo Frei Ruíz	Alejandro Toledo	Rafael Caldera
		Néstor Kirchner Cristina Kirchner	Ricardo Lagos Michelle Bachelet	Alan García	

countries. In 1890 its income per capita was the sixth highest in the world and continued among the top ten until 1920. From 1870-1930 it experienced an average growth rate above 5%, higher than almost all nations of the world. During this period the country received several waves of European immigration, mainly from Italy, attracted by the good living conditions²³. This period was characterized by free trade, openness of the economy to foreign, monetary and fiscal management well ordered and orderly

succession of constitutional government until the *Coup d'état* of September 6, 1930 by José Félix Uriburu.

The effects of the First World War and the Great Depression of 1929 led to a shift in development strategy. It began the era of import substitution industrialization (ISI), which was applied during the twentieth century. In 1943, deposed President Ramón Castillo, began a turbulent period in the political history of Argentina. Since then, the country has had over 28 presidents. The election of Coronel Juan Domingo Peron in 1946, consolidated the model of state intervention in the economy, ushering in a period of macroeconomic

²³ MORA and ARAUJO, Manuel. "From Perón to Menem. A History of Peronismo". In: BORÓN, Atilio, et al. *Peronismo and Menemismo. Populism in Argentina*. El cielo por asalto. Buenos Aires. 1995.

populism. Perón tried to solve the problems of income inequality, through price controls and expansionary policies in state spending. These were financed through the inorganic issuance, which generated a problem of inflation that would remain in Argentina for over thirty years

Also Perón nationalized many businesses, passed legislation that favored labor unions and used public funds for the work benefactors of the Foundation Eva Perón, led by his wife. Peron was deposed in 1955 and exiled during 18 years until 1973, and his party, the *Justicialista* Party, was forbidden to participate in the electoral process²⁴.

After a tumultuous period in which democratic governments alternated, Peron was re-elected and he took power in October 1973. He died in July of the following year. His second wife while vice president, María Estela “Isabel” Martínez de Perón, succeeded him. Perón’s second government again used price controls and increased government spending as their tools of social policy, as had happened almost twenty years before as a result of unbalanced economy.

In 1976 the Chief of the Army Commander, Jorge Rafael Videla led a new *coup d’état*. The military government remained in power until 1983 and opted for a policy opposed to Perón’s policy. They developed a more liberal economic policy, opting for the opening of the economy to foreign trade, price liberalization and fiscal austerity in social spending. After the populist government of Juan and Isabel Perón, inflation edged 350% annually. The military government did nothing about it and contributed to the process with excessive spending during the Malvinas War²⁵.

In 1983, inflation edged the 430% and assumed power after free elections, Raúl Alfonsín, he belonged to Radical Civic Union (UCR), the *Peronist* opposition party. The main problem for the government was to fight inflation and ran the Austral Plan, which required an austere fiscal and monetary performance, plus a tax reform to improve the financing of expenditure. The plan ordered the freezing of prices and utility rates and the regulation of interest rates and the exchange rates. After a year of implementation, the monetary policy and price controls were relaxed. The latter attempt to control inflation was the Spring Plan, which was also unsuccessful: inflation marked a record 4923% in 1989²⁶.

In this situation of economic chaos, Carlos Saúl Menem, took over the government in 1989. He was the *Peronist* and former governor of La Rioja. His *Peronist* tradition was not in favor of a heterodox shock policies needed to combat inflation and he spent a year without a fixed course. In 1990 inflation reached 1343% and the economy had remained stagnant from two decades ago, as the average annual growth during that period was less than 1%²⁷.

These facts forced the Argentine government to take drastic measures: after nearly twenty years of inflation, it was thought that the only way to give confidence to staff was through the “Austral Convertibility”, in relation to 1-1 of Argentina currency against the U.S. dollar. The only inflation in the economy would be imported from the United States.

The plan achieved the goal of ending inflation. In 1992, it was only 17% in 1993 was 7.4%, after 3.9% in 1994, and every year after that was below 2% until 2002²⁸. However, a system of fixed exchange rate brought some economic

²⁴ Ibid.

²⁵ MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View*. Ob. Cit.

²⁶ MORA and ARAUJO, Manuel. “From Perón to Menem. A History of Peronismo”. Ob. Cit.

²⁷ Ibid.

²⁸ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

challenges for Argentina. To maintain equivalence, its competitiveness should have evolved like the U.S., but this did not happen: the dollar rose against other leading currencies in the world and the peso came up, making the costs of production in Argentina higher than in other countries, so that the country lost competitiveness²⁹.

Additionally, since amount of resources issued depended only on the flow of dollars, the country's capital outflow caused interest rates to rise. This mechanism should again attract capital, but in the contexts of Tequila and the Russian crisis (Paramio), they turned away from emerging markets fearing a repetition of similar scenarios in other countries. These last two required immediate treatment, but the government sought reelection and did not allow it. Once again the populist strategies of the leaders are used to keep them in power.

Added to this was the lack of flexibility in domestic prices. The syndicalist tradition and a strong regulated labor market hampered the flexibility of wages to adjust the delay in competitiveness (real wages increased by 42% between 1990 and 1998).

But the biggest problem for the economy was Argentina's external debt, correlated with the maintenance of a high fiscal deficit throughout the nineties and the early years of the new millennium. In 2001 the debt approached 150 billion U.S. dollars. This figure corresponded to nearly 50% of its GDP³⁰.

In 1999 the problem of convertibility needed to be resolved. The Washington Consensus reforms suggested maintaining a competitive exchange rate and trade liberalization. Argentina was in an impasse. If devalued, would bankrupt many companies and would probably have to declare a moratorium on its debt. If Argentina did not devalue, its debt would

become more expensive. President Menem chose not to devalue, perhaps with the illusory hope of getting re-elected a second time.

In late 1999, the government of Fernando de la Rúa (UCR-Alliance Frepaso) started. This government opted to keep the convertible model, adjusting the fiscal situation and avoid new borrowing. It tried to give the necessary credibility to the government to encourage foreign capital in Argentina. The idea was to return this country by the path of growth.

After months of marches and counter marches, street protests, strikes, several letters of intent signed with the International Monetary Fund (IMF) and finally the straw that broke the camel's back was the announcement of the withdrawal limit for bank deposits to \$ 250 per week (*corralito*). Fernando de la Rúa was forced to resign³¹. After three interim presidents that lasted just a few days in to government comes, allowing it to Eduardo Duhalde, who finally devalues the peso float freely against the dollar, plunging the country into a serious crisis, but necessary measure to stabilize at levels close to 3 pesos dollar in late 2003.

In 1999 De la Rúa inherited a country with a delicate economic situation, a combination of high and rising public debt, a persistent fiscal deficit, high unemployment and rigidity in the exchange rate and monetary policy³².

Between 1999 and 2001, the crisis in Argentina was unsustainable. This triggered the largest financial collapse in recent history in Argentina, which led, inter alia, to the peso devaluation and a deflation³³. To counter the crisis, President Fernando de la Rúa, asked the International Monetary Fund resources and

³¹ Ibid.

³² GERVASONI, Carlos. *Political crisis política and financial crisis in the Aliances' government in Argentina (1999-2001)*. 2010. Available On: <http://repositories.lib.utexas.edu/bitstream/handle/2152/4090/gervasoni.pdf?sequence=2>

³³ Ibid.

²⁹ Ibid.

³⁰ Ibid.

increased its domestic debt. The result of this policy was fatal for Argentinean debt, caused bankruptcy to the state at the end of 2001, and force to declare the public debt default.

The political and economic crisis of Argentina during the period 1999-2001, did not give the possibility to President Fernando de la Rúa to implement economic policies that would allow him to improve his image, making it clear that macroeconomic populism was not present in this government.

De la Rúa resigned on 20 December. There were three interim presidents Ramón Puerta, Adolfo Rodríguez Saa and Eduardo Camano between December 20 to January 1st. A moratorium on payment of external debt was declared on December 23, in an environment that was viewed internally and externally as a strong motivating populism.

On January 1, Congress elected Eduardo Duhalde, to complete the term of de la Rúa. The first days of January 2002, the system finished collapsing with the Emergency Law and leaving the Convertibility law, establishing new restrictions on the removal of deposits and the *pesification* of dollar bank deposits³⁴.

From 2003 to 2007, Argentina experienced a phase of economic growth with rates ranging around 9% in part due to a high dollar economic policy designed to encourage import substitution, which increased the competitiveness of industry in Argentina. This ended the crisis. Some economists argue that Argentine inflation presented during the government of Nestor Kirchner and Cristina Kirchner, is due to several factors, including growth in public spending, lower investment, expansion of the monetary base by issuing pesos to finance public expenditure increases, among others.

In the government of Cristina Kirchner the global crisis affected the local economy. The costs could be contained by timely monetary expansion policy and public spending. Less income and more spending, a strategy to avoid higher social costs, resulted in a loss of fiscal surplus. That surplus, which reached nearly 3.0 points of GDP in 2008, fell to a deficit of 0.4 in 2009, according to private estimates³⁵.

Again, during the governments of Nestor Kirchner and Cristina de Kirchner macroeconomic populism was evident, as it used to appear. Expansive growth policies endangered economic stability, to the point of hiding their effects through the manipulation of inflation.

4.1.2 Chile

Historically, Chile has been characterized as one of the countries of greater political stability and democratic development in Latin America. During the twentieth century, in contrast with Perú and Argentina, Chile only suffered two military coups. The first was in 1932, but did not establish a military government and elections were held. The winner was Víctor Arturo Alessandri Palma. The second coup d'état was by Augusto Pinochet in 1973, deposing the then constitutional president Salvador Allende³⁶.

After the First World War, Chile was in a good economic situation. The government decided to develop a liberal model exporting mainly primary products generating the effect of linkage with other sectors of the economy. The Great Depression hit hard in Chile. The export sector collapsed with a crash and the Chilean economy was one of the hardest hit in the world. After this experience, Chile's development policy was oriented towards industrialization, the ISI

³⁴ GUTIÉRREZ, Ricardo Raúl. *Argentine crisis at the end of milenio. A teaching for Political Economie. Department of economie.* UNS. Ausgut, 2003. Available on: http://www.aaep.org.ar/espa/anales/PDF_03/Gutierrez.pdf

³⁵ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America.* Ob. Cit.

³⁶ MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View.* Ob. Cit.

and increased state intervention. By the forties, both the State and the private sector played a business role.

However, in the fifties economists began to notice some of the shortcomings in the import substitution model (ISI). Non-industrial sectors such as agriculture stagnated. It discourages the development of new export products. The populist guidance of some governments during this period fostered macroeconomic imbalances and started for the first time an inflationary process in 1955³⁷.

In 1964 the government of Eduardo Frei Montalvo of the Christian Democrats began. This government sought to stabilize inflation, industrial modernization with the state as a source of investment and establish social structural reforms such as land reform, nationalization of the copper and the development of grassroots organizations to promote citizen participation.

However, the antagonism of the political parties prevented the formation of a strong government and after six years of government failed to meet the expectations, of political and economic transformation generated in the population.

Therefore, in 1970, the Chilean people opted for the socialist candidate of Popular Unity (UP), Salvador Allende. This government was proclaimed anti-imperialist, anti-oligarchic and antitrust. Its main objective was to strengthen the structural changes in the distribution of property. To achieve this should nationalize the means of production and encourage greater participation³⁸. Its main reforms were the nationalization of the country's mineral resources, the nationalization of large industrial enterprises, nationalization of banks and the deepening of land reform.

³⁷ Ibid.

³⁸ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit. p. 124.

From the macroeconomic point of view, this government applied an expansionary fiscal policy by raising the salaries of state employees, increasing the state apparatus and over-spending, and price controls. This policy can be categorized as populist and as such had no regard for macroeconomic balances.

This experiment ended as the other populist experiences in Latin America: fiscal deficit financed by Central Bank issues, hyperinflation and falling real wages, hurting the very people it tried to help. By 1972, inflation was already out of control, reaching 206.5%, while for 1973 reached 605.1%. Successive strikes destabilized the government and the general chaos culminated in the coup led by General Augusto Pinochet³⁹.

The first two years of the Pinochet government turned to control the macroeconomic imbalances left by Allende. In parallel, they established a market economic policy, a fairly pure neoliberal model, with a sui generis property in Latin America: total autonomy to implement the policies it wishes. It eliminated price controls, tariffs were lowered dramatically to encourage imports, financial markets were liberalized and international capital flows were restructured and reduced public sector spending. Land reform was reversed and they began an aggressive privatization process of public enterprises.

Chile suffered terribly both economically and socially after the debt crisis of 1982. However, in 1984 Chile began a phase of high economic growth which would largely reverse the ravages of the crisis of the early decade. In 1989, after losing the referendum to stay in power, Pinochet calls for free elections in March 1990 the "Government of the Coalition of Parties for Democracy" begins chaired by Patricio Aylwin of the Christian Democrats, who took the decision not to change the historical direction of economic policy and gave priority to reducing

³⁹ Ibid. p. 125.

poverty and improving income distribution through active social policies⁴⁰.

This strategy was consolidating long-term development and supported by the growth and diversification of exports, while reaffirming the importance of maintaining macroeconomic balance through fiscal austerity.

This approach was vital for generating a climate of institutional stability needed to generate private investment. This policy was followed by the governments of Eduardo Frei Ruiz-Tegla (1994-1999) and Ricardo Lagos (2000 - 2006). During the nineties, Chile grew at an average rate of 7% annually. This prosperity was reflected in the improvement in real wages, increased employment levels and falling poverty and destitution.

The government of Michelle Bachelet was characterized by the high value of copper resources. Chile decided to save these resources and was able to successfully address the systemic crisis that hit credit markets in developed countries⁴¹.

For this reason, Chile was less affected, in conjunction with other Latin American countries. Generating a fiscal surplus in 2008, allowed the State succeeds in accumulating financial resources which prevented the internal or external borrowing⁴².

The economic measures taken in the handling of the crisis for the government of Michelle Bachelet, consisted of adjustments to monetary and financial, fiscal and exchange rate policies and foreign trade⁴³.

⁴⁰ Ibid. p. 124.

⁴¹ CEPAL. *Reaction of Latin America governments to international crisis: a little presentation of political measures announced from 30 June of 2009*. División de Desarrollo Económico. Comisión Económica para América Latina. Santiago. 2009.

⁴² GARRETON, Manuel Antonio. *Michelle Bachelet's government and Chilean Politic. ¿End of political cycle?*. 2010. Available on: http://www.manuelantoniogarregon.cl/documentos/2010/gobierno_bachelet_es.pdf

⁴³ Ibid.

In relation to monetary and financial policies there were more facilities for the area of foreign investment and the business sector, among other measures. Fiscal policy promoted measures investment and consumption. Exchange rate policy, foreign trade and foreign currency liquidity provided and improve coverage program of bank loans to exporters⁴⁴.

In 2009, Chile's risk rating by a rating agency changed from A2 to A1, placing it in the most favorable in the region⁴⁵.

As a result of good macroeconomic performance, assessment and policy, in January 2010, Chile became a member state of the Organization for Economic Cooperation and Development (OECD).

The economic policies implemented in the Bachelet government have been commensurate to the situation and have sought to generate sustainable economic stability, so there is no evidence of macroeconomic populism in this government.

4.1.3 Perú

Perú has been characterized by political instability. During the twentieth century occurred 8 *coup d'état* and ran 15 different military presidencies. The transition of democratic government in Perú is more the exception than the rule. The prevailing model of economic development until 1962 was a liberal and export model with mainly agricultural products (rice, sugar and cotton) and agribusiness⁴⁶.

⁴⁴ CEPAL. *Reaction of Latin America governments to international crisis: a little presentation of political measures announced from 30 June of 2009*. Ob. Cit.

⁴⁵ GARRETON, Manuel Antonio. *Michelle Bachelet's government and Chilean Politic. ¿End of political cycle?*. Ob. Cit.

⁴⁶ MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View*. Ob. Cit.

However, the export sector is not articulated with the national industry to produce value-added products, making the economy vulnerable to price changes. The high profitability in the export of primary products was discouraged in order to invest in the industrial sector, while maintaining low tariffs and competitive prices for imported goods. Under this system, the input of capital and profit repatriation is virtually unrestricted and state involvement and participation was minimal.

Between 1950 and 1962 the annual average fiscal deficit was -0.2% of GDP, inflation was 7.0% per year, GDP grew annually at a rate of 5.3% and foreign debt amounted to U.S. \$ 158 million. However, the social situation was bad and was characterized by high concentration of income.

In 1962, more than 30 years after the start of the ISI in Argentina and Chile, the elected President Fernando Belaunde's Popular Action party, began to implement this model. In this period were applied policies such as tariff increase for finished goods, fixed exchange rate, price controls, increased government investment in infrastructure, increased public spending, increasing foreign debt (which is necessary because of a lack of foreign exchange generated by the exchange rate appreciation) and the process began with land reform. However, these reforms did not have political consensus, especially from export sector which was directly affected.

The reforms were not considered radical. In October 1968, General Juan Velasco led a *coup d'état*. His model was an extreme version of the ISI and state intervention. He nationalized most international companies, maintained high tariffs on finish goods continued to increase fiscal expenditures through investment in infrastructure⁴⁷.

⁴⁷ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

As a result, the fiscal deficit continued to increase, which was covered by foreign debt, also intensified the process of agricultural reform, as farm ownership was highly concentrated. It is important to point out how. It was wrong for Perú land reform to be combined with the ISI, when much to these two incompatible policies dismantled the national productive apparatus. Agriculture went from 23% of GDP in 1950 to only 15% in 1968. Paradoxically, Perú began to import food⁴⁸.

Velasco was in a precarious state of health, while the nationalist model went into crisis. Popular discontent, manifested through several strikes and riots, were evident. Thus, in August 1975, General Francisco Morales Bermúdez was proclaimed President of the Republic.

During the period 1975-1980 he attempted to reverse some of the measures of Velasco, but not the reform or nationalization private enterprises. On the one hand, the government encouraged non-traditional exports through successive devaluations of the currency (that generated inflation). The government tried, without success, repeated adjustments of the fiscal and external debt, but they continued to increase. This period benefited from a rise in export prices of metals.

In 1980, democracy returned to Perú and Fernando Belaunde, leader of Popular Action, was elected. He organized a co-government with the Popular Party's center-right Christian. The government applied a weird combination of liberal politics to commerce populist in the macroeconomic. He continued external borrowing, which conditioned the rhetoric of economic policy.

To get the credits of International Monetary Fund (IMF) and the World Bank (WB), the

⁴⁸ MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View*. Ob. Cit.

government spoke of reducing inflation and opening the economy, but in practice implemented an expansionary fiscal policy, increasing public investment beyond its means. This measure, coupled with small devaluations of the exchange rate, meant that inflation remained above 70% during those years, reaching 158% in 1985⁴⁹.

Income inequality, inherent since the inception of the republic, had not been resolved. Thus, in the early eighties, subversive movements *Sendero Luminoso* and *Tupac Amaru Revolutionary Movement (MRTA)* were born and the government failed to articulate a coherent strategy to overcome in its infancy.

In 1985, Alan García was elected. He represented APRA, the oldest party in Perú. APRA was a socialist, anti-imperialist and revolutionary. This party decides to unilaterally declare a moratorium on foreign debt, a move that immediately isolated Perú from the international financial community.

García returned to the ISI and state intervention through expansionary fiscal and monetary policies. Again applied price controls, increased tariffs on imports, prohibited a large number of commodities that could be manufactured in Perú. Alan García tried to control inflation by fixing the basic price of the economy (such as gasoline and light), as the state owned production companies).

During the implementation of populist model of Alan García, the economy grew by 12.1% in 1986 (due to expansionary fiscal and monetary policies). The next year the economy heated up leading to the attempted nationalization of banking, in which entrepreneurs and investors lost confidence in the country⁵⁰.

⁴⁹ AMERICAN BUREAU. *The Poverty Brokers: The IMF and Latin America*. Ancora Editores. Bogotá. 1985.

⁵⁰ MARCHESI, Giancarlo. *The Evolution of Economic and Social Policy in Latin America: A Comparative View*. Ob. Cit.

By 1988, the fiscal deficit had reached 9.7% of GDP, while the product shrank by 9.4%. Alan García never considered the possibility of pursuing a policy shock like orthodox prices. If the government had taken corrective measures in 1987, when inflation was only 1145%, it could have avoided three years of additional suffering for the people of Perú. By 1988, inflation had climbed to 1722% and for 1989 was 2775%⁵¹.

Phenomenon of terrorism continued to rise, transforming a rural phenomenon to become urban. The long queues for food, strikes, and terrorist violence led to the Peruvian people to seek an alternative to the traditional parties.

At first, that alternative Mario Vargas Llosa represented the Libertad Movement, which is allied with the Popular Christian Party *Acción Popular*, two traditional parties which join to form the *Frente Democrático (FREDEMO)*. Vargas Llosa government pursued a policy of “redistribution freezing” by decree the prices of essential nutrients. When prices were devalued traders kept the food and black markets emerged.

In 1990, the country welcomes Alberto Fujimori as a new President of the Republic. He decided to pursue a policy of shock, as the only sensible measure. First, the prices rose dramatically to their estimated real level and were then released from government control.

At the same time, Fujimory applied a tight monetary policy, issuing only the essentials. The policy worked, as inflation went from a disastrous 7649% within 1990 to 139% during 1991. In 1994, inflation was only 15%, and since 1997, Perú has had single digit inflation⁵².

During the period 1990-1995, the government initiated a series of reforms to transform the

⁵¹ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

⁵² *Ibid.*

Peruvian economy into a market economy. It began an intensive process of privatization, which favored an accumulated economic growth of 43% in the first seven years, the government decided to liberalize the trade and foreign capital investment and more flexible industrial relations.

After the *coup d'état* of 1992, Abimael Guzmán, Shining Path leader was captured, and in 1993 Perú promulgated a new Constitution which allowed presidential reelection. Fujimori was re-elected, was to become a progressively authoritarian and corrupt leader. His third term lasted only three months because he had to flee to Japan, after the scandal of the first video of Montesinos's corruption network.

There followed a transitional government led by Valentin Paniagua, interim President elected by the Congress, who called elections, but the winner was Alejandro Toledo. Toledo assumes power in July 2001 and he continued the focus of economy policy on the free market.

The macroeconomic policy regime changed during the years 2000-2006. Adopting a monetary policy framework based on inflation targeting reduced the cost of money and improve the international competitiveness of Peruvian products⁵³.

The main problem faced by the Government of Toledo was an excessively low inflation. In late 2001, core inflation was below 1.5%, while in the first quarter of 2002, inflation reached a record negative rate⁵⁴.

In the last of the Fujimori administration, the fiscal deficit was above the 3% of GDP. The economic administration of President Toledo strengthened the control over public finances, thus reducing the fiscal deficit to 2.5% of GDP in 2001, for which it including launched a package of tax policies and administration, increasing the rate of general sales tax. In the same period the public debt as a percentage of GDP fell from 46.1% to 38.0%⁵⁵.

The government of Alan García implemented expansionary fiscal and monetary policies that explain the strong growth of domestic demand in 2007. Increased demand led to an economic expansion and rise in imports. This generated a trade deficit and an increase in inflation and financial vulnerability of the economy and loss of credibility for the Central Bank. García used policies that show an apparent expansionary economic growth which was not sustainable, and ended up weakening and loosening the Peruvian economy⁵⁶.

4.1.4 Venezuela

In 1998, six years after realizing an unsuccessful rebellious attempt against Carlos Andrés Pérez, the colonel Hugo Rafael Chávez Frías was elected as President of Venezuela. Since then his presidency has been defined as populist due to the different measures that including the following: very strong critic of the government of United States, of globalization and the market economy. During these years, the president has nationalized foreign companies, he has named his supporters in the Supreme Court, and he has implemented several programs directed to attending to the health of population while attacking the illiteracy of the poorest population of the country⁵⁷.

⁵³ JIMENES, Felipe. 2007. Available on: <http://felixjimenez.blogspot.com/2007/05/por-qu-el-per-sigue-creciendo.html>. Consulted on 21/08/10

⁵⁴ CUBA, Elmer. *Evolution of economic and political macroeconomy. An Analysis of Alejandro Toledo government (2001-2003)*. Available on: <http://www.gestiopolis.com/canales5/eco/consorcio/eyes52/archivos/52-evolucion-economica-gobierno-toledo-en-el-peru.pdf>

⁵⁵ CIES. *Dare to Fiscal Policy in Perú*. Consorcio de Investigación Económica y Social. Lima. December of 2006. Available on: <http://cies.org.pe/files/DyP/dyp27.pdf>

⁵⁶ *Ibíd.*

⁵⁷ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

Equally, he has changed the constitution to allow his perpetual reelection. Chávez defines himself as the standard-bearer of the “Bolivarian Revolution”⁵⁸. Nevertheless, before Chávez, Venezuela had experienced already the characteristics of populism. The populist history of Venezuela, began in the middle of the eighties, in Jaime Lusinchi’s Presidency, when the fiscal deficit, the foreign debt, and the inflation increased in a substantial way.

Between 1989 and 1993, the president Carlos Andrés Pérez tried to restore the economic order, to reduce the inflation, and to adopt modern measures but they were weak. When Pérez assumed power, the foreign debt was enormous and out of control, there was a shortage of food and credit had disappeared⁵⁹. One of the measures of stronger shock implemented by Perez was a strong devaluation, which reduced the value of the bolivar by two thirds⁶⁰. In three months, the price of the public transport increased thirty per cent.

As consequence of the multiple disturbances caused by the dissatisfaction of the population, this sad episode of the Venezuelan history was known as the *caracazo*⁶¹ and resulted in the deaths of more than 300 people in less than 5 days⁶².

One of the major consequences of the *Caracazo*, is the failed coup by Hugo Chávez in February 1992 against the government of Carlos Andrés

Pérez, Though unsuccessful, Chávez was popular among the population, which then lead to the power. The Venezuelan people were convinced that corruption was the most serious problem facing the country and Chávez was seen at the time as a hero.

In 1993, Pérez was accused of corruption and removed from his post by the Congress. In 1994, Rafael Caldera, who had been President between 1969 and 1974 came to power thanks to a populist platform that was opposed to the reforms and to the globalization.

His administration undid most of the shy reforms implemented during the second period of Carlos Andrés Pérez, realized in the frame of the consensus of Washington. In the first two years of Caldera’s presidency, his administration was characterized by rapid inflation, control of prices, and fall of the bolivar, bank crises and economic stagnation.

In 1994 the government liberated Colonel Hugo Chávez from prison and signed an agreement with the International Monetary Fund (IMF). In exchange for 1600 million dollars the government promised to reduce inflation and to reactivate growth, by a program of the modernization of the state and liberalization of the economy.

When Chávez assumed the power in 1998, Venezuela was the country of Latin America, which had implemented the least neoliberal reforms. For this reason is possible to affirm that Chávez is not a product of the Consensus of Washington. Chávez is a product of the corruption, the economic stagnation and the complacency of the Venezuelan elite⁶³.

During the first months of his presidency, Hugo Chávez has taken important decisions to change the political and economic system in

⁵⁸ RODRÍGUEZ, F. R. “An Empty Revolution: The Unfulfilled Promises of Hugo Chávez.”. In: *Foreign Affairs*. 2008.

⁵⁹ HAUSSMAN, Ricardo. “Impact of Public Finances on Distribution”. In: INTERAMERICAN DEVELOPMENT BANK. *Adjustment Policies and Poverty: False Dilemmas, Real Problems*. Ed. José Nuñez del Arco. Washington, DC. 1995. p. 261.

⁶⁰ *Ibid.*

⁶¹ LÓPEZ, Margarita. “The Venezuelan Caracazo of 1989: Popular Protest and Institutional Weakness”. In: *Journal of Latinoamerican studies*. 2003.

⁶² *Ibid.*

⁶³ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

Venezuela. In July 1999 he had established a Constituent Assembly. This Assembly approved a new constitution in December 1999. The new constitution made important changes: It changed the official name of the country to the Bolivarian Republic of Venezuela, replaced the bicameral Congress by a single chamber, which increased the power of the executive. Chávez also introduced changes in the system of electing judges and promised free education and health and quality for Venezuelans⁶⁴.

Chávez's economic policy had three objectives from the beginning: accelerate the rate of economic growth, provide social services and nationalize strategic companies⁶⁵. Chávez removed the centralized Ministry of family and social assistance in the Single Social Fund (FUS), administered by the military forces. Also Chávez's government created various social programs called "missions" aimed at providing medical services to the poorest Venezuelans. The government also implemented literacy campaigns and changes to improve the coverage and quality of education⁶⁶.

The use of these social programs for political purposes, "that since the political theory called the patronage"⁶⁷, have been considered a favorite tools of populist politicians⁶⁸.

From 2002, public spending rose sharply and the central bank issued currency more easily. Accordingly, the official inflation rate was over 30%, there was a price control and commodities became scarce⁶⁹.

⁶⁴ CORRALES, Javier. "Hugo Boss". In: *Foreign Policy*. January-February. 2006.

⁶⁵ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit. p. 262.

⁶⁶ Corrales, Javier. "Hugo Boss". Ob. Cit.

⁶⁷ WALKER, Ignacio "Democracy and Populism in Latin America." In: *Kellogg Institute for International Studies*. Working Paper. 2009.

⁶⁸ EDWARDS, S. (Ed.). *Populism and Markets: The Dilemma of Latin America*. Ob. Cit.

⁶⁹ Ibid.

Despite these social policies, growth in Venezuela has not been particularly significant in relation to the rest of Latin American countries (3.5% on average between 1999 and 2007). In fact, some analysts attribute the entire Venezuelan economic growth in this period to the increase in oil prices and the control exerted on the government oil sector by the government⁷⁰ but not to the success of the social policies of the Chávez government.

4.2 Colombia: why there has not been macroeconomic populism in our country?

As we have seen the countries of Latin America went through this phase of populism, with disastrous effects for the economy and welfare of its inhabitants. We note how the countries have some economic and political memory, enabling them to learn from their mistakes. We should ask ourselves if the populist political knowledge is absolutely untenable, or whether it can succeed. Colombia has hadn't absence a populist policy in the last four decades.

Colombia has been perhaps the exception to the rule of Latin American hyperinflation. In the last decades and until early 1990, Colombia has been characterized by macroeconomic stability, in contrast to the enormous volatility that other countries had in Latin America.

This stability without doubt is given by economic and political factors. On the one hand, economic stability generated by the coffee chains, led to unfavorable conditions for the emergence of populist movements.

Furthermore, the existence of a consolidated system of two political parties, contributed to an ideological convergence that has enabled the design and discussion of economic policies in a non-ideologically polarized. This situation has

⁷⁰ RODRÍGUEZ, F. R. "An Empty Revolution: The Unfulfilled Promises of Hugo Chávez". Ob. Cit.

hampered the introduction of macroeconomic populism. This led during the twentieth century the Colombian economy was one of the few economies in Latin America who never had hyperinflation.

The Evolution of the Central Bank in Colombia has also been identified as one of the key elements of macroeconomic stability⁷¹.

In 1923 Colombian created the Bank of the Republic, because the country needed an institution to put order to the issuance process, following the crisis of 1922. With the help of the Kemmerer mission was established by Act 25 of 1923, the Organic Statute of the Bank of the Republic, which gave exclusive authority to issue legal tender, managing foreign reserves and acting as lender to the government, but only when necessary. In 1951 Kemmerer mission designed the monetary, credit and exchange policies⁷².

1963 marked another important point in the evolution of the Colombian Central Bank, because government created the Monetary Board, which became independent come the conduct of monetary policy, credit and exchange policies of private actors (which previously were part of the Board Directors of the Bank of the Republic). It also consolidated the Banking Superintendency how the financial system watchdog⁷³.

In 1973, the Bank of the Republic became a financial public entity and in 1982 became an economic public entity, unique in nature, with special administrative arrangements, legal and independent assets. With the Issue of the Constitution of 1991, the Bank of the Republic rose to constitutional status and also to over

the management of monetary policy and the inflation control⁷⁴.

This independence of the Central Bank has encouraged the control of inflation, even at the expense of jobs and demand, and according to some of democracy itself.

Regarding the latter argument, it should be noted that the independence of central banks, driving away the temptation of populist as a tool as powerful as monetary policy, as submitted to the control of the Congress, academia, local financial markets and international public opinion.

In Colombia, during the government of Alvaro Uribe Vélez, the Democratic Security policy proposed by his government, resulted in feelings of security and confidence for the majority of Colombian citizens, increasing the president's popularity ratings.

However, in his management of economic policy, it is possible to observe some features of populism. With the aim of increasing the fighting forces, the Democratic Security Tax was established in 2001, which raised 2.5 billion pesos in order to close the budget gap for 2002 law enforcement and fund the so-called "Emergency Plan" in 2003⁷⁵, which consisted in increasing the forces manpower both rural and urban.

Some of the fiscal policy measures implemented during the government of President Uribe were: in 2002 he established the transitional tax assets through the law of internal disturbance. The government proposed a process of adjustment and austerity by announcing cut public

⁷¹ BANK OF THE REPUBLIC. *Introduction to Economic Analysis: the Colombian Case*. Second Edition. Bogotá. 1998.

⁷² *Ibid.* p. 164.

⁷³ *Ibid.* p. 171.

⁷⁴ GÓMEZ ARRUBLA, Fabio. *History of the Bank of the Republic*. Bank of the Republic. Bogotá. 1983.

⁷⁵ VELÁSQUEZ VARGAS, A, et al. "Public Safety and Public Expenditure: Reflections on the Colombian Case". In: *Latin America Today Magazine*. Vol 50. 2008. University of Salamanca, Spain. Available <http://redalyc.uaemex.mx/src/inicio/ArtPdfRed.jsp?iCve=30810929003>

spending by 1.5 billion pesos, as a result of the fiscal deficit of 3.3 percent of GDP in 2008.

Similarly, and in order to obtain more resources major state enterprises were privatized⁷⁶. Despite the announced austerity, the government increased its social spending programs such as investing in action families *Familias en Acción*, the expansion of subsidized health system, the new target population of the ICBF, breakfasts for children, protection for the elderly, increased training of the Sena, reducing unemployment, promoting micro-credit, the impetus to housing for the poor and increasing social investment⁷⁷, indicating that despite the high fiscal deficit, government spending continued to increase in military manpower and welfare policies without much impact on the welfare of society.

Unemployment had a small reduction from 2002 to 2007. However it increased from 2008 (see Chart 6). This increase may be associated with the effect of the global crisis on our country, taking into account the high degree of dependence of the Colombian economy on the U.S. economy.

During his first term of office, the Uribe government managed to maintain a certain economic stability to get through a fiscal policy strategy, which meant significant increases in public spending. However, during his second administration, this economic growth was affected by the revaluation and low employment generation. It is necessary to note that the early years coincided with the expansion of the global economy. However, in the efforts to achieve re-election and other political factors led the Uribe government to “leave aside” the economic issue. This led him to be less competitive in the second period.

Monetary policy during the government of President Uribe led by the Bank of the Republic, was focused on continuing the system of inflation targeting. To this end, the Bank of the Republic used measures such as increasing the base rate and increases in bank reserves, among others. The reduction of inflation has significantly increased trust in the Colombian economy. (See Chart 7).

It is possible to conclude that some features of the phenomenon called macroeconomic populism were present during the administration of President Uribe. He made use of economic policy to develop programs that allowed him to have a good national image, especially with the most vulnerable population, thus hiding the poor economic performance and serious problems of corruption within their government.

However, Colombia did not experience, like other Latin American countries at the time, the terrible consequences of macroeconomic populism. The strength of the institutions to which the Constitution had assigned the management of economic and fiscal policy and the control to prevent to use these tools in an irresponsible way by the executive, coupled with the traditional central bank independence, explains this situation.

Of course, many other factors contributed to the economic stability of Colombia in the Latin American context. Among these factors are the coffee boom and the boom of drug trafficking. All of these factors led the Colombian economy to be of populist management. It never had hyperinflation, and the country experienced the greatest macroeconomic stability in Latin America in the last sixty years.

CONCLUSIONS

Four of the five economies studied: Argentina, Chile, Perú and Venezuela have suffered the

⁷⁶ Ibid.

⁷⁷ PRESIDENCY OF THE REPUBLIC. Website www.presidencia.gov.co

delay of the import substitution model and the inflationary problems of populist policies. The exception is that Belaunde and Velasco did twenty years after knowing that it had not worked in Peron's Argentina.

Velasquismo inspired socialist Allende and Allende inspired García, 12 years after learning that this model had failed in Chile. It is hard to understand the logic of repeating failed experiences in dogmatic convictions.

We should, in light of what has been studied in the five cases presented, reflect on some lessons that I think are important: The first lesson is the importance of having a good economy policy to allow a strong social policy. Improving the quality of life of people, it is almost impossible in a context of recession or negative growth.

The time needed to generate revenue and quality jobs in an economy is more than the speed with which these jobs are lost in times of crisis. That is, the impact of the crisis is always greater than the impact of the expansions. Therefore, generating a long-term sustained growth is a necessary but not enough to improve the quality of life of the population.

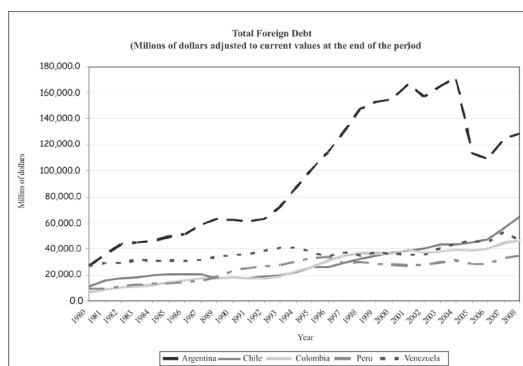
The second lesson is that one should not avoid a necessary and inevitable adjustment for political reasons, because if the adjustment is postponed, the treatment will end up being worse than the disease. Postponing the devaluation caused three years of additional suffering to the people of Argentina, and likewise for the Peruvians, who watched as little by little the quality of life was deteriorating.

Colombia is the exception to the rule of macroeconomic populism in Latin America. Different factors set out below (coffee stability, bipartisan consensus, macroeconomic policies, central bank independence, etc.) have never contributed to hyperinflation, and to maintained macroeconomic stability.

However, the absence of populism does not imply that there were always chosen to sound policies, at least on social issues on the poverty levels. In conclusion, macroeconomic populism was extremely harmful to the welfare of the countries studied and Colombia was the exception to the rule.

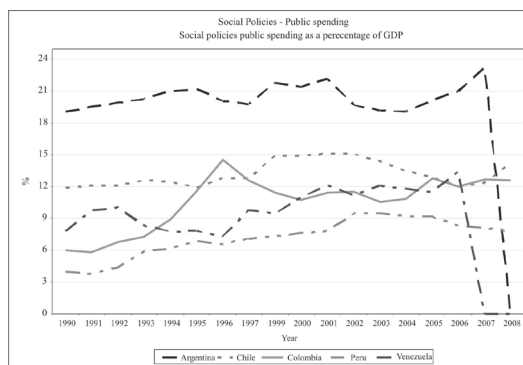
GRAPHS

Graph 1. Total foreign debt



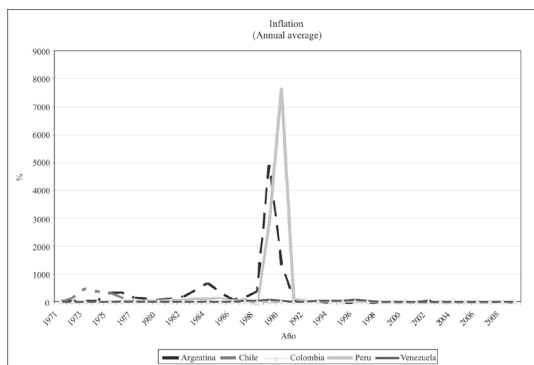
Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 2. Social policies - public spending



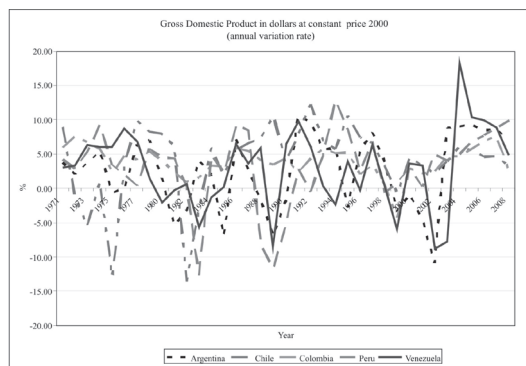
Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 3. Inflation



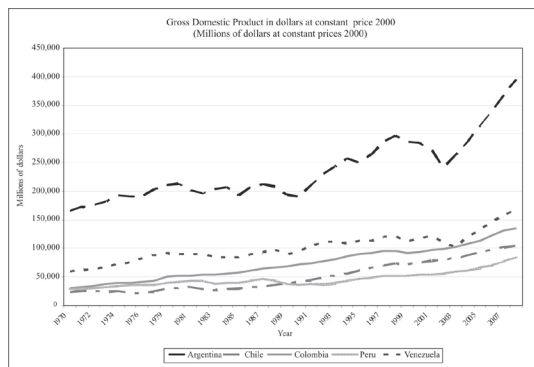
Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 5. Variation gross domestic product



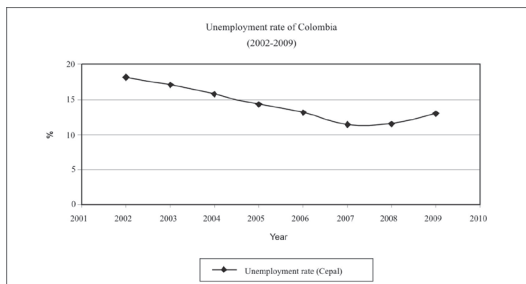
Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 4. Gross domestic product



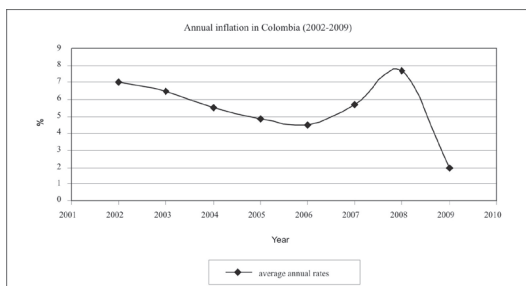
Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 6. Unemployment rate of Colombia



Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Graph 7. Annual inflation in Colombia



Source: CEPAL: Comisión Económica para América Latina y el Caribe. Development Own with database available at: <http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>

Chart 3. Presidents and presidential terms since 1950

Argentina	Chile	Colombia	Peru	Venezuela
1946 - 1951. Perón, Juan Domingo	1946 - 1952. Gabriel González Videla	1950-1951. Laureano Gómez Castro	1948-1950. General Manuel A. Odría Amoretti	1950-1952. Germán Suárez Flamerich
1951 - 1955. Perón, Juan Domingo	1952 - 1958. Carlos Ibáñez del Campo	1951-1953. Roberto Urdaneta Arbeláez	1950. General Zenón Noriega	1952-1958. Marcos Pérez Jiménez
1955 - 1955. Lonardi, Eduardo	1958 - 1964. Jorge Alessandri Rodríguez	1953-1957. Teniente general Gustavo Rojas Pinilla	1950-1956. General Manuel A. Odría Amoretti	1958-1959. Wolfgang Larrazábal
1955 - 1958. Aramburu, Pedro Eugenio	1964 - 1970. Eduardo Frei Montalva	1957-1958. Junta Militar de gobierno	1956-1962. Manuel Prado Ugarteche	1959-1959. Edgar Sanabria
1958 - 1962. Frondizi, Arturo	1970 - 1973. Salvador Allende Gossens	1962-1966. Guillermo León Valencia	1962-1963. General Ricardo Pérez Godoy y General Nicolás Lindley	1959-1964. Rómulo Betancourt
1962 - 1963. Guido, José María	1973 - 1990. Augusto Pinochet Ugarte	1966-1970. Carlos Lleras Restrepo	1964-1968. Fernando Belaunde Terry	1964-1969. Raúl Leoni
1963 - 1966. Illia, Arturo Humberto	1990 - 1994. Patricio Aylwin Azócar	1970-1974. Misael Pastrana Borrero	1968-1975. General Juan Velasco Alvarado	1969-1974. Rafael Caldera
1966 - 1970. Onganía, Juan Carlos	1994 - 2000. Eduardo Frei Ruiz-Tagle	1974-1978. Alfonso López Michelsen	1975-1980. General Francisco Morales Bermúdez Cerruti	1974-1979. Carlos Andrés Pérez
1970 - 1971. Levingston, Roberto Marcelo	2000 - 2006. Ricardo Lagos	1978-1982. Julio César Turbay Ayala	1980-1985. Fernando Belaunde Terry	1979-1984. Luis Herrera Campins
1971 - 1973. Lanusse, Alejandro Agustín	2006 - present. Michelle Bachelet Jeria	1982-1986. Belisario Betancur Cuartas	1985-1990. Alan Gabriel Ludwig García Pérez	1984-1989. Jaime Lusinchi
1973 - 1973. Cámpora, Héctor José	2001 - 2002. Camacho, Eduardo	1986-1990. Virgilio Barco Vargas	1990-1995. Alberto Kenya Fujimori	1989-1993. Carlos A. Pérez
1973 - 1973. Lastiri, Raúl Alberto	2002 - 2003. Duhalde, Eduardo Alberto	1990-1994. César Gaviria Trujillo	1995-2000. Alberto Kenya Fujimori	1993-1994. R.J. Velásquez
1973 - 1974. Perón, Juan Domingo	2003 - 2007. Kirchner, Néstor Carlos	1994-1998. Ernesto Samper Pizano	2000. Alberto Kenya Fujimori	1994-1999. Rafael Caldera
1974 - 1976. Martínez de Perón, María E.	Kirchner, Cristina 2007- present	1998-2002. Andrés Pastrana Arango	2000-2001. Valentín Paniagua Corazao	1999-2001. Hugo Chávez
	Sebastian Piñera 2010-	2002-2006. Alvaro Uribe Vélez	2001-2006. Alejandro Toledo Manrique	2001-2007. Hugo Chávez
		2006-2010. Alvaro Uribe	2006- present. Alan Gabriel Ludwig García Pérez	2007- present. Hugo Chávez
		2010- present. Juan Manuel Santos		

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